



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

As of May 12, 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES

May 12, 2000

Financial Condition:

The Office of the Graves County Sheriff is considered to be a going concern.

Comment and Recommendation:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Changes in Administration:

None.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 1999 Taxes as of May 12, 2000. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of May 12, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 10, 2001

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

May 12, 2000

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 671,816	\$ 711,655	\$ 1,771,510	\$ 1,142,859
Tangible Personal Property	117,579	99,662	284,131	439,324
Intangible Personal Property				142,713
Fire Protection	678			
Franchise Corporation	67,517	64,819	170,567	
Additional Billings	1,386	1,365	2,648	3,085
Bank Franchise	67,286			
Penalties	5,511	5,852	15,358	9,940
Adjusted to Sheriff's Receipt	(1,014)	2,029	(1,684)	(1,782)
Gross Chargeable to Sheriff	<u>\$ 930,759</u>	<u>\$ 885,382</u>	<u>\$ 2,242,530</u>	<u>\$ 1,736,139</u>
<u>Credits</u>				
Discounts	\$ 13,132	\$ 12,104	\$ 30,602	\$ 27,111
Exonerations	4,679	4,702	11,179	7,485
Delinquents:				
Real Estate	21,423	22,580	50,055	36,440
Tangible Personal Property	721	611	875	2,963
Intangible Personal Property				730
Total Credits	<u>\$ 39,955</u>	<u>\$ 39,997</u>	<u>\$ 92,711</u>	<u>\$ 74,729</u>
Net Tax Yield	\$ 890,804	\$ 845,385	\$ 2,149,819	\$ 1,661,410
Less: Commissions *	<u>38,146</u>	<u>35,099</u>	<u>85,993</u>	<u>70,897</u>
Net Taxes Due	\$ 852,658	\$ 810,286	\$ 2,063,826	\$ 1,590,513
Taxes Paid	850,743	808,510	2,058,740	1,589,320
Refunds (Current and Prior Year)	<u>1,935</u>	<u>1,760</u>	<u>5,076</u>	<u>1,127</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Fieldwork	<u>\$ (20)</u>	<u>\$ 16</u>	<u>\$ 10</u>	<u>\$ 66</u>

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* and ** See Page 4

GRAVES COUNTY
 JOHN L. DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 1999 TAXES
 May 12, 2000
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,362,051
4% on	\$	2,149,819
1% on	\$	25,548

** Special Taxing Districts:

Library District	(4)
Health District	(4)
J. U. Kevil District	1
Symsonia Fire District	17
Watershed I District	6

Due Districts or (Refund(s) Due Sheriff)	<u>\$</u>	<u>16</u>
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The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

May 12, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregation of transactions related to certain government function or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 8, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$945,877 of public funds uninsured and unsecured.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
May 12, 2000
(Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 8, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,007,360
Uncollateralized and Uninsured	<u>945,877</u>
Total	<u><u>\$ 2,953,237</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 1999 through May 12, 2000.

Note 4. Interest Income

The Graves County Sheriff earned \$3,966 as interest income on 1999 taxes. The Sheriff will distribute the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Legal Suit

Suit has been filed in the United States District Court for the Western District of Kentucky by Roger Ogg, Melody S. Burge, Jeffrey H. Burnett, Mark A. Elkins, and Timothy Violet against John L. Davis, individually and in his official capacity as Sheriff of Graves County, Kentucky. All of the plaintiffs are former employees of the Graves County Sheriff's Department. Plaintiffs sued pursuant to 42 USC 1983 claiming that their civil rights had been violated when they were not rehired by the Graves County Sheriff's Department upon Sheriff's Davis's assumption of office. All claims by Roger Ogg, Melody S. Burge, and Mark A. Elkins have been dismissed.

The complaint seeks a judgment for compensatory damages in an amount of not less than \$500,000 per plaintiff, punitive damages in an amount of not less than \$500,000 per plaintiff, attorney's fees, costs, expert witness fees, injunctive relief requiring reinstatement of each plaintiff to his or her former position with back pay and benefits and all other relief to which plaintiffs may be entitled.

Sheriff Davis has answered the complaint and intends to vigorously contest the allegations thereof. The case is early in its progress and no discovery has been completed. This action involves complex legal theories in an area that is not entirely settled. Accordingly, it is impossible to evaluate the likelihood of an unfavorable outcome.

COMMENT AND RECOMMENDATION

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
COMMENT AND RECOMMENDATION

May 12, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 8, 1999, \$945,877 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Was raised for 2000.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None

PRIOR YEAR:

None

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 1999 Taxes as of May 12, 2000, and have issued our report thereon dated August 10, 2001. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 1999 Taxes as of May 12, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 10, 2001

